B5350-3

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, NOVEMBER 18, 1985 VOLUME XXII, NUMBER 41

Free Trade Between The U.S. And Canada . . .

With each passing month of skyrocketing trade deficits, protectionism has become an urgent topic in boardrooms, factories, union halls and Congress alike. But despite talk of erecting more barriers in the United States against foreign goods, the opposite attitude toward imports prevails in Canada. There, discussions are now underway concerning a possible treaty dismantling many of the restrictions on trade between the United States and Canada. Official negotiations may begin next year leading to a free trade agreement between these two countries.

Free trade would be very much in keeping with the strong U.S.-Canada bilateral relationship which through the years has been moving steadily, if undramatically toward greater coordination and harmonization. This is evident in the closely linked capital markets of the two countries, extensive cross-border investment, abundant social and cultural linkages, and the frequent, unfettered movement of people across a common border.

A free trade agreement has been mentioned intermittently by the governments of both countries since the late 1970s. However, it was not until March of this year at a meeting between President Reagan and Prime Minister Mulroney that a commitment was first made to pursue the idea actively. In fact, such industries as automobiles and defense already have trade agreements promoting greater efficiency for both countries through an integrated North American market.

The importance of the Canadian trade relationship cannot be overstated. Canada is by far our largest trading partner, accounting for about 20 percent of both U.S. imports and exports. Our exports to Canada are not only twice as large as our exports to Japan or to Latin America, but even larger than U.S. exports to the entire European Economic Community. The United States and Canada have the largest two-way trade relationship in the world, estimated at about $125 billion this year.

In recent years, the United States has usually run a surplus on services—tourism, interest and dividend income—and a deficit on merchandise trade. The vigorous U.S. business expansion of the past three years has caused our merchandise trade deficit with Canada to accelerate rapidly. But special factors also contributed to this deficit. Canadian automotive exports benefited not only from the strong upturn in the U.S. auto market, but also from U.S. consumers' preferences once again for larger cars—a Canadian specialty.

Canada also enjoys a sizable surplus in the trading of petroleum and natural gas. Not only has Canadian production been increasing recently, but their domestic prices have gradually moved towards world levels, discouraging domestic demand and making more fuel available for exports. As a result, Canada trails only Mexico as the most important supplier of fuel to the United States—not to mention one of the most dependable.

. . . Can Benefit Both Countries . . .

The strong U.S. business expansion and its accompanying demand for imports have given a solid boost to Canadian economic growth. Exports make up over one fourth of Canadian GNP, and about three quarters of these exports are destined for the United States. In turn, stepped-up Canadian economic growth positively affected Canadian demand for U.S. goods. Paced by increased shipments of automotive parts, U.S. sales to Canada rose 22 percent last year—reaching $46.5 billion and providing jobs for an estimated 1.1 million U.S. workers—a fact too often forgotten in the talk of jobs lost because of U.S. imports from other countries.

Building on the already close trading ties which have benefited both the U.S. and Canada, an enhanced trade agreement will further strengthen this positive relationship. For the U.S., this will mean greater access to the markets of a country whose present tariffs are among the highest in the industrialized world. U.S. exports to Canada face an average 9.4 percent tariff, while the U.S. average rate is only 4.7 percent. In the present environment of a strong U.S. dollar and growing protectionist sentiment in other industrialized countries, the U.S. stands to gain from any development which would expand our market.

Copyright 1985
Manufacturers Hanover
270 Park Avenue, New York, N.Y. 10017

For Canada, on the other hand, the benefits from a more open trade door are different—and possibly more substantial. For one thing, the small size of their domestic market is often cited as a major brake on Canada's growth prospects. Canada's 25 million people—approximately one ninth as large as America's population—are disbursed over an area slightly larger than the U.S. In fact, Canada is the only advanced industrial country which does not have direct access to a market of over 100 million people.

The small size of the domestic market has prevented Canadian industry from enjoying economies of scale, and attempts to replicate the wide range of products available in the much larger U.S. market have fostered fragmentation and inefficiency. What is more, since the 1870s Canada has had a strategy of high-tariff protectionism which has also led to inefficiency in many industrial sectors. Trade liberalization and extended access to larger markets will challenge Canadian industries to become more efficient while providing a chance for industrial specialization, economies of scale and higher productivity.

Freeing trade is also important to Canada in light of today's relatively low inflation environment in general, and the softening of raw materials prices in particular. Canada is no longer able to

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/13/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	180.883	+ 2.045	+19.432
Loans to Depository Inst.	.791	– .334	– 3.892
Float	1.497	+ 1.128	+ .770
Total Reserve Bank Credit	198.258	+ 3.149	+18.627
Treasury Deposits with Federal Reserve Banks	3.064	– .043	– .064
Currency in Circulation	191.414	+ 1.603	+12.829
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	123.982	– 2.314	+ 6.305
	11/6/85		
Member Bank Reserves:			
Total Reserves Held	43.568	– .232	+ 5.573
Excess (Deficiency)	.788	– .017	+ .222
Net Free Reserves	.311	– .025	+ .934
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (11/4/85)	611.6	+ 9.4‡	+ 11.2‡
M2 (October '85)	2,532.7	+ 6.8	+ 9.2
M3 (October '85)	3,173.6	+ 7.6	+ 8.5
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/15/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.36%	7.37%	7.40%
* Federal Agencies	8.00	8.45	8.95
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.33	8.52	9.44
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.95	7.95	8.00

‡Finance Company Paper—Prime

5- 14 days	8.10%
15- 29 days	8.05
30- 59 days	8.00
60- 89 days	7.90
90-179 days	7.80
180-239 days	7.80
240-270 days	7.80

‡* Bankers' Acceptances

Dec.	7.90%
Jan.	7.95
Feb.	7.85
Mar.	7.80
Apr.	7.80
May	7.75

‡Industrial Paper—Prime

30- 89 days	7.90%
90-120 days	7.80

†Federal Funds Effective Rate 8.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'85	$ 3,916	$ 3,853	$ 3,695
Gross National Product (1972 Dollars)*	3rd Q'85	$ 1,685	$ 1,671	$ 1,645
Percent Change, Annual Rate	3rd Q'85	3.3	1.9	1.6
Change in Consumer Prices*	Sep '85	2.4%	2.4%	4.8%
Change in Producer Prices*	Oct '85n	10.8%	– 7.2%	– 1.2%
Civilian Employment (Thousands of Persons) †	Oct '85	107,867	107,5 4	105,649
Unemployment as % of Civilian Labor Force †	Oct '85	7.1%	7.1%	7.3%
Personal Income*	Sep '85	$ 3,209	$ 3,199	$ 3,068
Leading Indicators Composite Index (1967=100) †	Sep '85	170.3	170.2	165.7
Industrial Production Index (1977=100) †	Oct '85n	124.9	124.9r	122.7
Net Change in Consumer Installment Credit †	Sep '85n	$ 10.63	$ 6.31	$ 4.98
U.S. Merchandise Trade Balance †	Sep '85	–$ 15.55	–$ 9.90	–$ 11.54
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Sep '85	1,583	1,746	1,669
New Construction Expenditures*	Sep '85	$ 350.4	$ 343.9	$ 321.0
Total Business Inventories †	Sep '85n	$ 579.5	$ 578.2r	$ 565.5
Total Business Sales †	Sep '85n	$ 428.5	$ 430.4r	$ 412.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

rely on rising prices for its natural resources to boost its standard of living. Canadians must develop a strategy to move away from emphasis on natural resource exports (which accounted for over half of their 1984 exports), toward more reliance on its manufacturing sector in order to maintain its share of global markets.

. . . But There Are Costs

While it is a fundamental principle that countries can improve their living standards by specializing in exporting what they are good at producing, this does not mean that liberalized trade carries with it no short-term costs. In both countries, there are industries which might not be able to hold their own in a more competitive market. Thus, a free-trade treaty will probably allow for an interim transitional period to give these previously protected industries time to upgrade and adapt their operations to the new free-trade environment. Adjustment assistance was built into the 1965 U.S.-Canadian auto pact, and was regarded by many to be a considerable success. Notwithstanding this, the task now facing governments in both countries is to develop a supportive structure for assisting other industries in making the necessary, albeit difficult, adjustment to a more competitive trading environment. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/30/85)	158,105	+ 704	– 1,764
New York City (11/6/85)	33,479	– 285	– 437
Commercial Paper (11/6/85)	286,433	– 362	+53,231

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/30/85)	252,526	+ 20	+ 3,699
New York City (11/6/85)	60,384	+ 719	– 4,053

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/30/85)	691,433	+ 3,723	+ 49,503
New York City (11/6/85)	153,521	+ 1,277	+ 9,651

Financial Markets

	Friday 11/15/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.58%	+ .12	– 1.32
180-Day Bills†	7.74	+ .10	– 1.61
Longest Bills†	7.92	+ .12	– 1.88
Recent Issues:			
8 7/8s 10/31/87	8.62	+ .06	
9 3/8s 9/30/89	9.18	+ .07	
10 1/2s 8/15/95	9.89	+ .05	
10 5/8s 8/15/15	10.74	+ .60	
Municipals:			
Bond Buyer–20 Bond Index* (11/14/85)	8.60%	– .08	– 1.71
Blue List Total ($ Million)	$1,730	$ 152	– $ 56
30-Day Visible Supply ($ Million)	$5,889	–$2,209	+ $3,322
Total	$7,619	–$2,057	+ $3,266
Corporates:			
Moody's Aa Composite (11/14/85)	11.09%	– .09	– 1.65
30-Day Visible Supply ($ Million)	$1,025	–$ 843	– $ 665
Stocks:			
Dow-Jones Averages:			
Industrials	1,435.09	+ 30.73	+ 247.15
Transportation	684.81	+ 6.67	+ 168.59
Utilities	165.83	+ 3.90	+ 22.06
65 Stocks	580.22	+ 10.78	+ 108.57
Standard and Poor's 500 Stocks	198.11	+ 4.39	+ 34.01
N.Y.S.E. Composite Index	114.35	+ 2.40	+ 19.65
N.Y.S.E. Avg. Daily Vol. for Week (000's)	132,682	+15,078	+ 59,640

* 46% Taxable equivalent 15.93%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/15/85	Week Ago
Overnight	8.50%	7.81%
1 month	8.13	8.00
3 month	8.13	8.06
6 month	8.13	8.06
1 year	8.31	8.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	9.80%	9.80%
Long Term (7 to 15 yrs.)	10.35	10.35

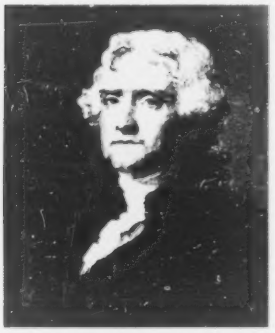
FOREIGN EXCHANGE SPOT RATES

New York Opening (11/15/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01893	52.8300
Canada	.7269	1.3757
Denmark	.1057	9.4600
France	.1254	7.9725
Germany	.3823	2.6155
Italy	.0005661	1766.50
Japan	.004901	204.03
Mexico	.002014	496.50
Netherlands	.3395	2.9455
Switzerland	.4661	2.1455
U.K.	1.4250	.7018

15th Century: Lorenzo de Medici and his family lead the cultural flowering of Florence.

1508: Pope Julius II commissions Michelangelo to paint the Sistine ceiling.

1717: George I is honored by the composition of Handel's *Water Music*.



18th Century: Thomas Jefferson becomes a noted patron of the arts.

1829: James Smithson of London bequeaths his fortune to the U.S. to establish a museum.

1892: Andrew Carnegie provides the funds to build Carnegie Hall.

Manufacturers Hanover is pleased to carry on the tradition of private sponsorship of the arts for the benefit of the public.

MANUFACTURERS HANOVER
The Financial Source.™ Worldwide

Among the recent events which Manufacturers Hanover helped make possible: *The Vatican Collections: The Papacy and Art*, Metropolitan Museum of Art, Spring 1984; *Van Gogh in Arles*, Metropolitan Museum of Art, Fall 1984; *Treasures from The New York Public Library*, Spring 1985. Two ongoing programs for which we provide support are the American Ballet Theater and the subtitle program of the New York City Opera.

The Manufacturers Hanover
Financial Digest
Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

00203000006990 C 939 CONGR0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014